

Message Text

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TAGS: EFIN, KS

SUBJECT: NEW PRICE CONTROL AND FAIR TRANSACTIONS LAW

REF: SEOUL 9287

SUMMARY: IN LINE WITH KOREAN GOVERNMENT EMPHASIS ON FURTHER CURTAILING DOMESTIC PRICE INFLATION, NEW LEGISLATION BROADENS ROKG POWERS TO SET PRICE CEILINGS AND PREVENT PROFITEERING. EXPECTATION IS THAT NEW POWERS WILL BE HELD LARGELY IN RESERVE TO REINFORCE INFORMAL GOVERNMENT JAWBONING TO DISCOURAGE UNWARRANTED PRICE INCREASES. MAIN BURDEN OF ANTI-INFLATION EFFORT WILL PROBABLY FALL ON RESTRICTIVE FISCAL AND MONETARY POLICY RATHER THAN DIRECT PRICE CONTROLS. END SUMMARY.

1. NEW PRICE STABILIZATION AND FAIR TRANSACTIONS LAW, PASSED BY NATIONAL ASSEMBLY EARLIER THIS MONTH (REFTEL), GIVES GOVERNMENT BROADER AND MORE FLEXIBLE POWERS TO SET AND ENFORCE MAXIMUM PRICES OF "ESSENTIAL" COMMODITIES, RENTS, AND SERVICES. MAXIMUM PREVIOUS PENALTY FOR VIOLATION, 5 YEARS PRISON PLUS FINE OF 10 TIMES TRANSACTION AMOUNT, RESULTED IN FEW PROSECUTIONS BECAUSE OF SEVERITY. NEW LAW REDUCES MAXIMUM PENALTY TO 2 YEARS PRISON PLUS 30 MILLION WON FINE (DOLLARS UNCLASSIFIED

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62 THOUSAND AT CURRENT EXCHANGE RATE).

2. SO-CALLED OLIGOPOLISTIC AND MONOPOLISTIC FIRMS ARE PARTICULAR FOCUS OF NEW LAW, WHICH AUTHORIZES GOVERNMENT TO REQUIRE PRODUCTION COST REPORTS FROM SUCH FIRMS AND ALSO PERMITS GOVERNMENT TO INSPECT THEIR RECORDS.

3. ANOTHER NEW PROVISION AIMS AT EASING TEMPORARY SUPPLY BOTTLENECKS BY ENABLING GOVERNMENT TO ORDER BUSINESSES TO CHANGE PRODUCTION AND OTHER OPERATING PLANS. THIS NEW POWER IS LIMITED TO MAXIMUM FIVE MONTH PERIOD FOR EACH CASE, AND EACH CASE MUST ALSO BE APPROVED BY CABINET AND PRESIDENT.

4. NEW CATEGORY OF PROHIBITED "UNFAIR TRANSACTIONS" INCLUDES SPECULATION IN COMMODITIES, RESTRAINT OF PRODUCTION, AND ACTIVITIES OF CARTELS AND TRUSTS IN RESTRAINT OF COMPETITION, EXCEPT WITH PRIOR GOVERNMENT APPROVAL, STATED GOVERNMENT OBJECTIVE IS PREVENTION OF ARTIFICIALLY HIGH PRICES, NOT BREAKUP OF LARGE FIRMS OR GROUPS.

5. PRICE STABILIZATION COMMITTEE, WITH NON-GOVERNMENTAL APPOINTEES IN MAJORITY, REPLACES PREVIOUS COMMITTEE WHERE GOVERNMENT OFFICIALS HAD MAJORITY. NEW COMMITTEE WILL ADVISE GOVERNMENT ON PRICE CEILINGS AND RECOMMEND CHANGES IN FIRMS' PRODUCTION PLANS.

6. IMPLEMENTATION DECREE NOW IN PREPARATION IS EXPECTED TO PROVIDE FOR ENFORCEMENT OF LAW BEGINNING FEBRUARY 1. DECREE IS ALSO EXPECTED TO DEFINE WHAT FIRMS OR PRODUCTS WILL BE CONSIDERED MONOPOLISTIC OR OLIGOPOLISTIC FOR PURPOSE OF REPORTING REQUIREMENTS AND ALSO TO SET PENALTIES FOR PRICE INCREASES WHICH SUBSEQUENTLY ARE DETERMINED TO BE UNJUSTIFIED BY PRODUCTION COSTS.

7. COMMENT. WE DO NOT EXPECT ANY DRAMATIC CHANGE FROM NEW LAW. UNDERLYING PREFERENCE OF ECONOMIC PLANNERS IS FOR FREE MARKET DETERMINATION OF PRICES RATHER THAN PRICE AND PRODUCTION DIRECTIVES. QUIET JAWBONING WILL PROBABLY CONTINUE TO BE PRIMARY GOVERNMENT TACTIC WITH FIRMS, AND NEW LEGISLATION WILL PROBABLY SERVE PRIMARILY TO MAKE INFORMAL GOVERNMENT GUIDANCE MORE PERSUASIVE. NEW LAW WILL ALSO DEMONSTRATE TO PUBLIC THAT GOVERNMENT IS SERIOUS
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ABOUT ANNOUNCED PLANS TO BRING DOWN RATE OF PRICE INFLATION FROM 42 PERCENT WHOLESALE RATE IN 1974 AND 25 PERCENT IN 1975 TO 10 PERCENT OR LESS IN 1976. MAIN ANTI-INFLATIONARY WEAPONS EXPECTED TO BE FISCAL AND MONETARY POLICY RATHER THAN DIRECT INTERVENTION IN PRICE SETTING.
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